EXHIBIT S

S&P Global
Market Intelligence

Inotiv, Inc. NasdaqCM:NOTV

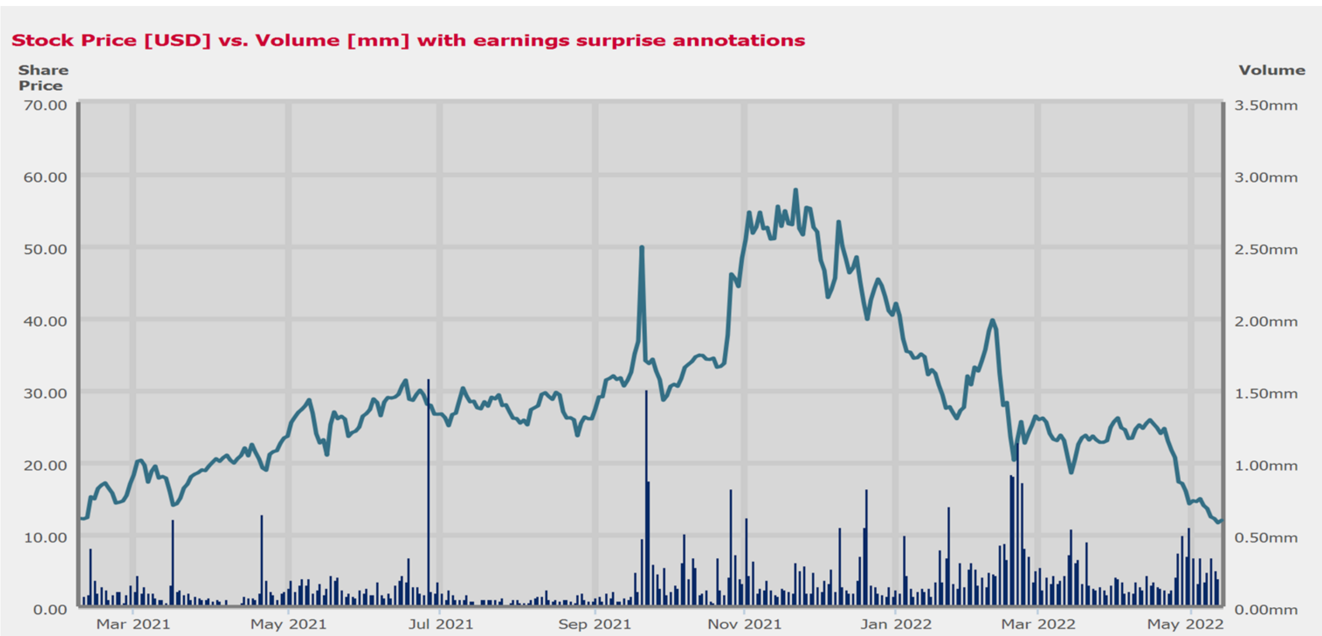
FQ2 2022 Earnings Call Transcripts

Thursday, May 12, 2022 8:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2022-	-FQ2 2022-		-FY 2022-	-FY 2023-
	CONSENSUS	CONSENSUS	SURPRISE	CONSENSUS	CONSENSUS
EPS (GAAP)	(0.04)	(0.27)	NM	(3.14)	1.74
Revenue (mm)	72.78	120.56	▲16.38	470.50	578.72

Currency: USD
Consensus as of Apr-08-2022 10:00 AM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2021	(0.03)	(0.06)	NM
FQ3 2021	(0.08)	(0.15)	NM
FQ4 2021	(0.13)	0.06	NM
FQ1 2022	(0.04)	(3.93)	NM

Table of Contents

Call Participants

EXECUTIVES

Beth A. Taylor
VP of Finance & CFO

Robert W. Leasure
President, CEO & Director

ANALYSTS

Frank James Takkinen
Lake Street Capital Markets, LLC, Research Division

Matthew Gregory Hewitt
Craig-Hallum Capital Group LLC, Research Division

ATTENDEES

Kalle J. Ahl
The Equity Group, Inc.

Presentation

Operator

Greetings. Welcome to Inotiv, Inc. Second Quarter Fiscal 2022 Financial Results Conference Call. [Operator Instructions] Please note this conference is being recorded.

I'll now turn the call over to Kalle Ahl of The Equity Group. Kalle, you may now begin.

Kalle J. Ahl
The Equity Group, Inc.

Thank you. Thank you, everyone, for your patience. We apologize for the delay in the call start time as Inotiv's second quarter fiscal 2022 financial results press release was delayed due to a technical issue. However, the company has proceeded to file an 8-K with the second quarter fiscal 2022 financial results, which can be found on the SEC's website. A copy of the earnings press release will be available as soon as possible in the Investors section of the company's website at inotivco.com.

As a matter of formality, I need to remind you that some of the statements that management will make on this call are considered forward-looking statements, including statements about the company's future operating and financial results and plans. Such statements are subject to risks and uncertainties that could cause actual performance or achievements to be materially different from those projected. Any such statements represent management's expectations as of today's date. You should not place undue reliance on these forward-looking statements, and the company does not undertake any obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise. Please refer to the company's SEC filings for further guidance on this matter.

Management also will discuss certain non-GAAP financial measures in an effort to provide additional information for investors. A definition of these non-GAAP measures and reconciliations to the most comparable GAAP measures are included in the company's earnings release, which will be posted in the Investors section of the company's website at inotivco.com and is also filed in the 8-K.

Joining us from the company this afternoon are Bob Leasure, President and Chief Executive Officer; Beth Taylor, Chief Financial Officer; and John Sagartz, Chief Strategy Officer. Bob will begin with some opening remarks, after which Beth will present a summary of the company's financial results. Then we'll open the call for questions.

Now it's my pleasure to turn the call over to Bob.

Robert W. Leasure
President, CEO & Director

All right. Thank you, Kalle, and good afternoon, everyone, and thank you for joining us today. I apologize for the delay. And we'll find out the reasons later and try to remedy that. But in the meantime, I guess, well, listen with renewed interest since you've not seen the results yet.

Second quarter fiscal 2022, we achieved another period of very exceptional growth driven by the positive impact of strategic acquisitions and strong ongoing demand across both of our segments: Discovery and Safety Assessment, or DSA; and Research Model and Services, or RMS.

Our DSA quoting levels, awards and backlog all reached quarterly records, while total revenue grew year-over-year by more than sevenfold to approximately $140.3 million, and adjusted EBITDA increased sharply to $25.3 million or 18%. This quarter's results highlight our progress in building Inotiv into a thriving, world-class contract research organization with comprehensive, end-to-end preclinical research services and complementary research model capabilities.

Our foundational DSA business continues to perform very well, with segment revenue more than doubling to $39.1 million from $18.8 million in the period prior year quarter. DSA benefited from $7.4 million or

36.5% of internal growth augmented by incremental revenue from strategic acquisitions of HistoTox Labs, Bolder BioPATH, BioReliance, Gateway Pharmacology, Plato BioPharma and ILS that we have made to expand our suite of preclinical solutions. We continue to optimize and integrate our DSA operations.

The ILS acquisition closed on January 10 and, therefore, contributed only partially to our results this quarter. ILS operates in a 50,000-square-foot facility located near Research Triangle Park in North Carolina and brings immediate capacity and expertise to our developing genetic toxicology services, including in vivo/in vitro toxicology, pathology, molecular biology, bioinformatics and computational toxicology services. We believe ILS will eventually integrate with the assets we acquired from MilliporeSigma's BioReliance portfolio in July of 2021.

Also in January, we announced a collaboration with Synexa Life Sciences, a clinical biomarker and bioanalysis research services company, that will accelerate our development of biomarkers essential to the understanding of safety and efficacy of novel biotherapeutics.

After the quarter end, we further expanded our specialized pathology services with the April 25 tuck-in acquisition of Histion, which brings us core competencies and highly specialized plastics and medical device pathology. This acquisition supports the expansion of our surgical model and medical device services in Fort Collins, Colorado.

This quarter, we continue to make internal investments to drive future growth in our DSA segment. In January, we completed our St. Louis, Missouri facility expansion and are currently recruiting to meet growth opportunities. In Fort Collins, we are expanding operations to double the revenue run rate at this location. We anticipate this additional capacity will become available during the second quarter of fiscal 2023. We are increasing our recently acquired ILS capacity by 30% and hope to have that available by the first quarter of fiscal 2023. We are in the process of building a new 48,000-square-foot leased facility in Rockville, Maryland for biotherapeutics and genetic toxicology growth, which should be completed by April of 2023. We are starting to see some revenue from initial phases of establishing this business. And in Boulder, we are building out operations to provide 50% to 70% additional capacity. We anticipate this capacity will become available in January of 2023.

We are making these investments in response to the strong demand and quoting activity we are experiencing for our preclinical services from current customers, customers acquired in recent acquisitions and with new clients.

In the second quarter, in addition to record DSA sales in Q2, we had record new awards, and our DSA book-to-bill ratio remained a robust 1.52x. The period ended with the backlog for DSA totaling $133.6 million, which is up 147.9% from $53.9 million a year ago and an increase of 27.7% from $104.6 million as of December 31, 2021.

Moving to our RMS segment. The integration and optimization of the recently acquired Research Model and Services businesses are proceeding. These businesses contribute $101.2 million of incremental revenue this quarter, well ahead of the run rate when we announced the acquisitions. We have begun investing across the organization to improve facilities in animal welfare and streamline operations. We are also investing in locations to expand capacity in the U.S. and in Europe. By adding capacity and resources, we anticipate supporting growth in services and consolidating 2 existing RMS locations and the recently acquired RSI business into these sites by calendar year-end. These investments are also part of our plans to enhance RMS margins and improve facilities.

The examples of facility improvements we are making to enhance animal welfare, including investments in water systems, air quality, electrical upgrades and enhancements, improved sewer systems, housing and veterinary care facilities.

At the end of January, we announced the purchase of OBRC, a nonhuman, primate importer and quarantine facility located near our existing facility in Alice, Texas. This acquisition provides an opportunity to further expand our services and address client needs at a time when the industry demand is outstripping supply.

I'd like to note that we are beginning to experience tangible cross-selling opportunities between our RMS and DSA segments. The opportunities we are experiencing are driving some of our expansion decisions.

We continue to invest in our people, systems and infrastructure to support both business segments. On that note, in February, we were thrilled to recruit and appoint Mo Dastagir as Inotiv's Chief Technology Officer. Mo is passionate about applying information technology to enable more rewarding experiences for our clients and employees and has knowledge of the life sciences industry. In addition to leading and overseeing global technology operations, his key responsibilities will include continuing development of an industry-leading digital strategy for Inotiv, creating a strategic data and analytics and insights platform, building a scalable technology platform to enable additional growth, continually upgrading our cybersecurity program and creating solutions to improve quality and communication, accelerate speed to market and drive efficiencies and profitability.

In April, we are also very pleased to recruit and appoint Fernanda Beraldi as the company's General Counsel and Corporate Secretary. Fernanda brings with us approximately 15 years of corporate legal counsel, ethics and compliance experience, including prior executive roles with public companies.

Other critical positions were filled over the last 4 months as we have continued to recruit, upgrade and build out our scientific team, veterinarian staff, sales, marketing, client experience, finance, technology, human resources and accounting teams with an eye towards creating best-in-class talent and a proactive contemporary organization to support future growth, the best client experience and continued improvements across both segments.

During the second quarter of fiscal 2022, the company spent $9.5 million on capital expenditures or approximately 6.8% of revenue. And for the 6 months ended March 31, 2021, the company spent $15.2 million on capital expenditures or approximately 6.8% of revenue. In addition, we have made investments in our start-up activities for new service offerings and expansion of existing services, which includes validation of new equipment, recruiting and training.

Based on the recent trends and backlogs, we are providing guidance for revenue of at least $290 million in total for Q3 and Q4 of fiscal 2022, which will be at least $510 million of total revenue for fiscal '22, implying year-over-year internal growth of 30% or more. We expect our adjusted EBITDA for fiscal 2022 will not be less than our adjusted EBITDA for the 6 months ended March 31, 2022, of 15%.

Our integration and optimization of acquired businesses is going very well. We anticipate additional operating leverage as we complete our investments and continue our expansions and consolidation plans.

We are aware of the recent broader market concerns and commentary, so let me address a few of those. We have not seen any cancellations of orders out of ordinary course of business. We are not aware of any cancellations due to lack of funding. We have not seen any collection issues due to lack of funding. We continue to monitor our top clients' liquidity, and we have not seen any fundamental changes. We believe our business is on solid footing, delivering both strong growth and positive cash flow while we continue to invest in our future. We have developed a strong and recurring client base and are the preferred primary supplier for many of our customers.

While Inotiv has become a much larger organization over the last few years, we remain steadfast in our emphasis on white-glove client service, which we believe is paramount for our continued success. Our investments in recruiting are driven by responding to customer requests and to continually improve our service-enhanced communication, accelerate speed to market and improve the experience and environment for our employees and research models.

With that, I'll turn it over to our Chief Financial Officer, Beth Taylor. Beth, please go ahead with the financial overview.

Beth A. Taylor
VP of Finance & CFO

Thanks, Bob, and good afternoon. In the second quarter of fiscal 2022, our total revenue increased to $140.3 million from $18.8 million in the comparable prior year period driven by a $20.3 million increase in DSA revenue and a $101.2 million increase of incremental RMS revenue.

Our DSA segment revenue grew 108% year-over-year to $39.1 million, reflecting $12.9 million of incremental service revenue from the acquisitions of HistoTox Labs, Bolder BioPATH, Gateway Pharmacology, Plato BioPharma, BioReliance and ILS, plus $7.4 million of higher service revenue from internal growth.

Our RMS segment revenue totaled $101.2 million. We did not have any RMS revenue in the comparable prior year period. Orient BioResource, which was acquired on January 27, 2022, contributed 2 months of revenue to this quarter's results.

In the second quarter of fiscal 2022, our total gross profit increased to $44.7 million or 31.9% of revenue, and that is up from $6.3 million or 33.5% of revenue in the comparable prior year period.

DSA gross profit was $12.3 million or 31.5% of DSA revenue. Our DSA gross profit percentage was lower than the comparable prior year figure of 33.5% due to our investment in capacity, recruiting, training and capability to meet increasing customer demand. As we begin to utilize this recently added capacity, we anticipate a favorable impact to DSA gross profit margins.

RMS gross profit in the second quarter of fiscal 2022 was $32.4 million or 32% of RMS revenue. We did not have any RMS gross profit in the prior year comparable period. This quarter, we incurred $2.6 million of noncash inventory step-up amortization, which negatively impacted the RMS gross profit percentage by 2.6%.

Operating income in the second quarter of fiscal 2022 totaled $7.9 million compared to an operating loss of $0.5 million in the comparable prior year period, reflecting higher revenue and higher gross profit, partially offset by increased operating expenses.

The increased operating expenses in the quarter reflect acquisition-related costs and higher strategic investment in unallocated corporate G&A to support future revenue growth, and this includes additional head count, recruiting and relocation expense; greater investment to build out new service offerings; higher selling expenses due to an increase in travel costs as our sales and marketing teams have traveled more as the COVID-19 pandemic has eased; and increased commissions due to higher sales awards.

During the quarter, we continued to invest in internal capabilities to provide additional service offerings such as medical device pathology, pharmacology, biotherapeutics and genetic toxicology. All combined, adjusted corporate unallocated G&A totaled approximately 10.8% of revenue in the second quarter of fiscal 2022 compared to approximately 21.5% of revenue in the second quarter of fiscal 2021. Our long-term objective is for unallocated corporate G&A to reach between 6% to 8% of revenue.

I'd also like to point out that this quarter's selling expenses were higher compared to the prior year period due to our increased book-to-bill ratio as we accrue commissions when we win new orders prior to the recognition of the corresponding revenue.

Net loss in the second quarter of fiscal 2022 totaled $6.1 million or negative $0.24 per diluted share compared to a net loss of $0.7 million or $0.06 per diluted share in the comparable prior year period. But we want to note that this quarter's reported figure was impacted by $6.8 million of tax expense, which was the result of a change in the company's forecasted effective annual tax rate primarily due to the favorable earnings impact of acquisitions.

Adjusted EBITDA increased to $25.3 million or 18% in the second quarter of fiscal 2022 compared to $1.3 million or 6.9% in the comparable prior year period.

The book-to-bill ratio for our DSA service business in the second quarter of fiscal 2022 was 1.52x. We continue to build our infrastructure for growth, which included additional head count, transaction and integration costs and internal investments in new service offerings, technology and systems.

Our DSA backlog at the end of the second quarter of fiscal 2022 was $133.6 million, up 27.7% from $104.6 million on December 31, 2021, and up 147.9% from $53.9 million on March 31, 2021.

Cash flow from operations during the second quarter of fiscal 2022 totaled $5.2 million compared to $2.9 million in the comparable prior year period. CapEx in the quarter totaled $9.5 million or 6.8% of revenue. And for the 6 months, CapEx totaled $15.2 million or 6.8% of revenue, which included investments in facility improvements, site expansions, enhancements to laboratory technology and system enhancements to improve the client experience.

Our balance sheet as of March 31, 2022, included cash and cash equivalents of $47 million and total debt of $337.6 million. At quarter end, we had a 0 balance on a $15 million revolving credit facility and a 0 balance on a new $35 million delayed draw term loan per our amended credit agreement in January of 2022.

We are pleased with the continued increase in our earnings, book-to-bill and backlog and the general direction our business is heading, and we feel confident in continuing to invest in our future.
This concludes our prepared remarks. And with that, operator, please open the call for questions.

Question and Answer

Operator

[Operator Instructions] Our first question is from the line of Frank Takkinen with Lake Street Capital Markets.

Frank James Takkinen
Lake Street Capital Markets, LLC, Research Division

Great. Congrats, Bob and Beth, on another fantastic quarter. Bob, I wanted to circle back to your comments on the biotech market. I appreciate the color. It's really helpful. And obviously, the quarter and the guide kind of speaks for itself, too, in this category. But I was hoping you could comment more on why your business may be seeming a little bit more insulated to some of the other market headwinds that other players and peers in the market are speaking to.

Robert W. Leasure
President, CEO & Director

Thank you, Frank. I can't speak to our peers. I think that overall, our DSA business is a very small part of a very big market. And we have done a lot of acquisitions over the last year. And in those acquisitions, we've acquired a lot of clients, and we have a lot of clients that still are not doing business with us, that could do business with us and are interested in doing business through those acquisitions. So I think being a very small part of a very large market and being acquisitive and having acquired a lot of clients, I think we have opportunities that may be are a little different than a company that maybe has not been in the acquisitive mode. So I think we have opportunities as a result of that.

I'm not saying that we're completely insulated. I think some of the things that people are saying are predicting out in the future, so I'm not going to get into predicting the future. But I do know that we have a very good client base and many more opportunities, I think, which we could explore. We are still having the no-quote activity at this point because of capacity.

Frank James Takkinen
Lake Street Capital Markets, LLC, Research Division

Great. That's good color. And then I wanted to shift over to just the broader acquisition strategy. Obviously, a lot going on over the last couple of years, and the results again speak for themselves that you've done a nice job integrating and organically growing these acquisitions. But maybe just talk a little bit about the strategy as you look forward now that you've bid up as much as you have. Do you continue to expect to be as active as you have been in the history? Or do you think maybe you're going to start to digest what you have and work with what you currently have under the umbrella?

Robert W. Leasure
President, CEO & Director

I like what we currently have, and I think some of these acquisitions are taking advantage of the scale opportunities we have within the sites and to leverage that fixed cost structure, so we can see margins improve and top line improve and the unallocated G&A, of course, come down. That being said, and we obviously just did a small tuck-in acquisition which accelerated our move into the histopathology for medical device business, something we announced that we were going to start last July and we've been building, and this allowed us to accelerate that a little quicker.

We'll continue to look for those opportunities, and we'll continue to be active in the market and exploring those opportunities as they become available. So how we finance them may change down the road, but we'll continue to evaluate and evaluate the market. And I think we did a really nice job last year of playing the opportunities that came in front of us and using our strengths, and I think we'll continue to be able to do that in the future.

Frank James Takkinen
Lake Street Capital Markets, LLC, Research Division

Okay. And then just last one from me on the balance sheet. We've gotten a number of questions just about leverage profile and covenants that are out there. With this report, cash balance and the EBITDA number out there, I think it puts much more breathing room between where the leverage is right now and the covenant that is out there. Can you confirm that and just maybe a comment about the financial position and your comfort with that at this point?

Robert W. Leasure
President, CEO & Director

Yes. I think that this is something we alluded to before. And I heard the same concerns when we did the transaction, and people were worried about the leverage based on a historical look-back. If you look at this quarter and you look at what we're now identifying as the run rate for the next 2 quarters, combined, it looks that our EBITDA run rate would be over $100,000 a year. And I think that changes the debt profile and the leverage profile a little bit from what people anticipated.

So our senior debt is $240 million plus some cash, so net debt of, what, $210 million, $220 million. We have the convertible notes of maybe another $140 million. We're at 2.2x. And with the senior notes at $100 million run rate, we're probably closer to 3.6x. So I think those are coming in line with where we identified 6 months ago, or 4 months ago, I guess, when we last talked, what we're targeting to attain.

Frank James Takkinen
Lake Street Capital Markets, LLC, Research Division

Perfect. I'll stop there. Congrats again on all the progress.

Robert W. Leasure
President, CEO & Director

Thank you.

Operator

Our next question comes from the line of Matt Hewitt with Craig-Hallum.

Matthew Gregory Hewitt
Craig-Hallum Capital Group LLC, Research Division

Maybe first one, and then kind of thinking back to last fall post the Envigo acquisition, Bob, one of the things that you mentioned, one of the areas that you are most concerned about, was actually from a capacity standpoint and staying on top of the hiring. And I'm just curious if you could give us an update on your hiring, how that's proceeding. Are you able to find the people that you need to stay in front of things from a capacity standpoint?

Robert W. Leasure
President, CEO & Director

Yes. Matt, thank you. We, in the last 6 months, have made some substantial efforts in building up our human resource department, made some great hires, I think building a very strong team and very pleased with that. I think that in looking at the Envigo acquisition, for example, in the last 6 months, we were able to add a net of 100 people, more than they did the 6 months prior to the acquisition. We've done a lot of market research to make sure we're moving people in line with the market and giving merit increases. And we've been much more proactive in doing that in the DSA and the RMS business. And as a result, I think it's paying dividends in our ability to recruit.

At any one time, we're still always recruiting 10% to 15% of our workforce. So if we have 2,000 people now, we'd probably have 300 open jobs, but we've been able to fill those. Where we see the most pressure and turnover right now is maybe some of the entry-level positions and some of the bigger challenges that may exist in the entry-level positions. Some of the scientific positions, the veterinary

Ex. S at 10

positions, the pathology positions, some of the higher-level positions, I think we've done a very nice job of filling some of those roles. And I think we're becoming, in some cases, a preferred place to work, and I'm very proud of that.

So it's a constant battle in today's market, and we have to stay vigilant. There's probably not a week goes by that we don't talk about it quite a bit and look at the metrics. But I think that we've made some progress. And I think our turnover rate is down, but hopefully, we can continue to do better.

Matthew Gregory Hewitt
Craig-Hallum Capital Group LLC, Research Division

Thank you for the details regarding what you're seeing from a market perspective. Maybe another way to look at it, is there any way for you to break down like what percentage of your revenues is coming from large and maybe medium pharma and biotech versus the other end of the spectrum, the small pharma companies, maybe some of the private equity, anything along those lines. Just that divergence, I think, would be helpful.

Robert W. Leasure
President, CEO & Director

With the recent questions that have come up on that, that we have looked at then, is what are the awards from, say, pre-commercial customers and what is our base of business right now. It's changed quite a bit with the recent acquisitions. A couple of years ago, we were very heavy with biotech. Today, if you look at our overall sales, we estimate about 20% of our sales are from pre-commercial customers and biotechs. We do keep an eye on those.

And some are publicly funded and some are private funded. As we look at the private funding, it looks like it stayed very strong. I understand the comments on the public funding. But the last couple of years were extremely strong in the biotech funding market, and many of our customers have a pretty good supply of cash at this point. I think the funding that came into the market is much greater than the capacity that was added to the market. So I think, as a result, I think as I listen to the other CROs and hear what they're doing, I think everybody's backlog is still out through the summer of next year. And as we get those orders, and we look at the balance sheets at the time, and we find that they're still in fairly good shape.

So we also have the opportunity to go back and look at some of the discovery pharmacology businesses that we acquired over the last year and what did they do in the prior downturns. And some of those companies actually did quite well and grew during those periods. As I think some people look to outsource, they don't build during those periods. They're a little more conservative. They may be doing some more outsourcing. And some of those biotechs don't build up quite the internal capacity. So we continue to keep an eye on all of those concerns and opportunities. And right now, we still feel good about what we are doing and the opportunities that we have in front of us. But I think they're all very good questions, and we're very cognizant of the comments and the commentary in the market.

Matthew Gregory Hewitt
Craig-Hallum Capital Group LLC, Research Division

That's very helpful color. And then maybe one last one from me, and I'll hop back in the queue. Any update on the supply channel? I don't know, I listened to another call this morning, there were some questions about vials or blister packs. And I realize that's less of an issue for you, but is there anything from a supply channel thing that maybe you're trying to stock up a little extra inventory just in case or you've been able to kind of manage through some challenges? Anything on that side?

Robert W. Leasure
President, CEO & Director

We're not seeing or hearing anything like that. A couple of years ago, at this time, when the pandemic first started, we heard more of that. And by having multiple sites, when some sites are low, other sites were able to help out. We probably will build up our PPE inventory a little bit more than we had before. But for

the most part, that has not been a concern by any of our sites or facilities for the last couple of quarters that I've really heard about.

Operator

At this time, we've reached the end of the question-and-answer session. And I'll turn the call over to Bob Leasure for closing remarks.

Robert W. Leasure
President, CEO & Director

All right. Thank you, everyone, for participating on our call this afternoon. We look forward to reporting back to you in August when we release our third quarter fiscal 2022 financial results. I see that our press release, it looks like it, may have just come out. So I hope everybody has a great day. Thank you.

Operator
This concludes today's conference. You may disconnect your lines at this time, and thank you for your participation.

Ex. S at 13